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Food Marketing System

Huge, Growing, *Dynamic*

Outlook Conference
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Page 17

TAKE PRIDE IN AMERICA TM

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PERSPECTIVES

U.S. agricultural exports for fiscal year 1990 totaled an estimated 148.5 million metric tons, valued at $40 billion. Both numbers were up slightly from 1989.

In fiscal 1991, (October 1990 through September 1991), both volume and value of exports are likely to fall, because of increased world supplies of major commodities, according to economist Stephen MacDonald of USDA's Economic Research Service.

A bumper crop of wheat worldwide should result in lower prices in 1991. U.S. corn exports are expected to fall 7 million tons as global trade shrinks and our customers buy more feed wheat from our competitors. Higher soybean prices, however, will help offset the decreases in grain sales.

Increased 1990 exports of high-value products and cotton offset lower prices for most bulk commodities. But much of the reported increase in high-value exports was due to corrections of previous underreporting of exports to Canada. This added $1 billion to the value of 1990 total U.S. farm exports. Each country is now using export statistics based on the other country's imports data—which are more accurate and more complete than exports data, MacDonald says.

U.S. coarse grain exports (mainly corn) in fiscal 1990 were estimated at more than 69 million tons, the highest level since 1981 and about 9 million tons above the previous year. Strong demand sustained prices. Coarse grain export value increased about $800 million to $8 billion.

Cotton exports increased about $850 million in fiscal 1990 to an estimated $2.9 billion. The increase was attributed to competitive U.S. prices and strong foreign demand resulting from reduced supplies in major competing nations including China, Pakistan, and the Soviet Union.

European Community (EC) purchases of U.S. farm products remained about the same, at approximately $7 billion for fiscal 1990, sustained primarily by increased buying of cotton. Meat exports continue to suffer from the EC's hormone ban. Exports to China fell an estimated 40 percent in fiscal 1990, largely because of lower wheat exports. The U.S. market share of China's wheat imports fell from about 50 percent in 1989 to 25 percent in 1990, while Canada and Australia increased their shares. U.S. farm exports to Taiwan were estimated at a record $1.8 billion in fiscal 1990. Increasing feed consumption in Taiwan's pork and poultry industries has boosted imports.

Some sales to Iraq were lost during the last two months of the fiscal year after the United Nations trade sanctions went into effect. Fiscal 1990 shipments before the sanctions totaled about $590 million under USDA's GSM 102 and 103 credit guarantee programs. Fiscal 1989 exports to Iraq had totaled a record $790 million.

The Soviet Union's purchases of U.S. grain were about the same in 1990 as in 1989. Wheat purchases decreased, but corn buying was at a record level. While slower, Soviet import demand for grain will remain relatively strong in fiscal 1991, MacDonald says. Soviet demand for livestock products continues to outpace supplies. U.S. meat and dairy sales to the Soviet Union have been at an all-time high.

— Jack Harrison

FARMLINE

AGRICULTURE...NATURAL RESOURCES...RURAL DEVELOPMENT
Practical economic intelligence from USDA's Economic Research Service

FEATURES

Food Marketing System: Huge, Growing, Dynamic *by Priscilla Glynn* **2**

Sales by the U.S. food marketing system totaled $694 billion in 1989. Substantial changes occurred, including increased concentration and a rise in total debt. The system is made up of about 600,000 processing, wholesaling, retailing and foodservice firms.

Japanese Investments in U.S. Agriculture Still Minor *by Doug Martinez* **10**

The Japanese have been increasing their investments in U.S. agriculture and agribusiness, and now have holdings valued at several billion dollars. But this still gives them only a small portion of the U.S. total.

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SPECIAL IN THIS ISSUE

Rice Production Centered in Arkansas **8**

Rice is a major food for more than half the world's population, but in this country it is popular only on a regional or cultural basis. Six States, led by Arkansas, account for all the U.S. commercial production of rice. The 1989 crop of 154 million cwt was produced on 2.7 million acres. This latest installment in *FARMLINE*'s series on major crops includes a map pinpointing the counties that produce rice.

Dialing Up Economic Information **14**

This handy guide provides telephone numbers of key specialists in USDA's Economic Research Service and National Agricultural Statistics Service. The listings are arranged by subject to help you find the right person to answer questions about crops, livestock, farmland prices, trade, and other topics. This revised guide is being issued because ERS phone numbers have been changed.

Food Marketing System: Huge, Growing, Dynamic

The U.S. food marketing system—that amorphous network of some 600,000 processing, wholesaling, retailing, and foodservice firms that process and distribute the Nation's food supply—underwent more big changes in structure, behavior, and performance in 1989.

"The food system's debt rose by nearly $70 billion from the third quarter of 1988 to the fourth quarter of 1989, largely due to leveraged buyouts and mergers," explains economist Anthony Gallo of USDA's Economic Research Service. "Higher interest payments on loans decreased the profitability of the food processing and retailing sectors. However, operating profits before interest for processors and retailers rose sharply because of lower nonlabor operating costs, only minimally higher labor costs, and strong economic growth."

Competition is keen for shares of the food marketing dollar.

Aggregate concentration (the share of output produced by the largest firms in a particular sector) increased in the food processing and wholesaling sectors. The food system's equity (the value of its common stock) reached record high levels.

Food processors cut down on consumer advertising, but apparently kept up promotional efforts to retain shelf space in retail outlets. Competition for shares of the food marketing dollar, already keen, intensified as more than 12,000 new products were introduced. Gallo also points out that in 1989 the system adopted pesticide residue certification programs for the first time.

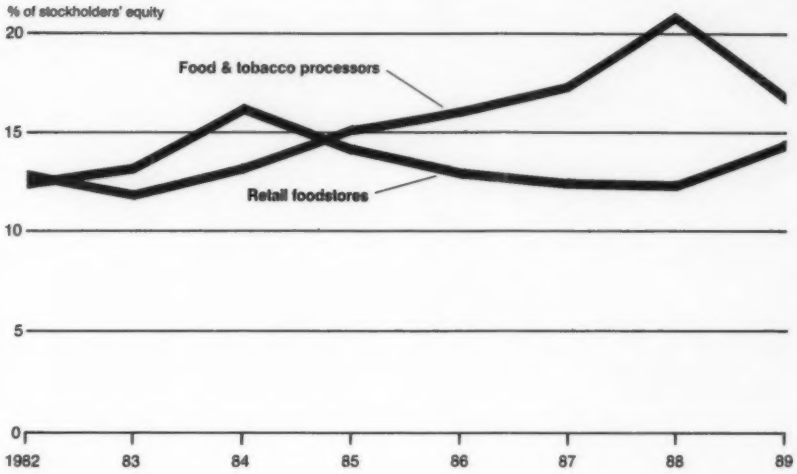
Wages and Prices Stable

Last year, sales in the U.S. food marketing system reached roughly $694 billion, including $272 billion in retail food sales, $235 billion in sales by restaurants and institutions, $77 billion in alcoholic beverage sales, and $110 billion in sales of nonfood items (tobacco, health and beauty aids, and household products sold at retail food stores). Wage and price stability held down costs for the seventh consecutive year—low farm prices and a moderate rise in wages held in check increases in the prices producers paid for inputs in 1989.

For the seventh straight year, labor costs constituted the major expense for the food marketing system. Average hourly earnings in food retailing and processing rose 2.5 percent over 1988. Wages for workers in eating and drinking establishments averaged $4.74 per hour, up 6 percent.

The food marketing system purchased an estimated $105 billion in domestic agricultural commodities, $20 billion in foreign commodities, and $9 billion in seafood products. The system then added an estimated $495 billion in value to these products.

Food and Tobacco Processors' After-Tax Profits Declined in 1989



Figures subject to revision.

Competition Was Stiff in 1989

The industries making up the U.S. food marketing system have traditionally been characterized by slow growth, a circumstance that affects how they compete. In 1989, the system generated an estimated 9.5 percent of the gross national product, down from nearly 12 percent in 1972. The dollar value added by the system has increased since that time, and a much greater portion of the output is now produced by far fewer and larger companies.

Competition in 1989 continued to be brisk in all sectors of the food marketing system as firms sought to expand their respective market shares. "Price competition was evident in the fast food arena, with some restaurant chains offering consumers major discounts in what appears to be a seller-saturated market," Gallo notes. "Price competition was also widespread for such products as colas and frozen pizzas." Prices for restaurant meals rose 4.6 percent, only 0.5 percent more than 1988's increase. In contrast, retail prices for food purchased in grocery stores climbed 6.5 percent, compared with 4.3 percent a year earlier.

However, Gallo points out that competition based on factors other than price has long been a mainstay of brand name products. New products were led by beverages, condiments, dairy, and bakery items. A total of 61,000 new products were introduced between 1982 and 1989. But even the largest supermarkets can stock only about 60,000 items, and industry estimates the failure rate for new products varies from 90 to 99 percent.

In 1988, food marketing firms spent about $11.5 billion on direct consumer advertising. Most industry estimates indicate that food processors spent roughly twice that amount to acquire shelf space in retail food stores through trade shows, promotions, discounts and allowances, and other incentives.

Gallo explains that, after adjusting for inflation, consumer advertising by the food system apparently declined in 1989. "For the first 9 months of the year, total advertising rose less than 1 percent, well below the 6-percent hike in advertising prices," he notes. "The overall decline in these expenditures would have been much more acute except that one category, eating and drinking establishments, increased their advertising expenditures by nearly 13 percent." Throughout the economy there has been a drop in advertising and some scaling down of expenditures necessitated by mergers and leveraged buyouts.

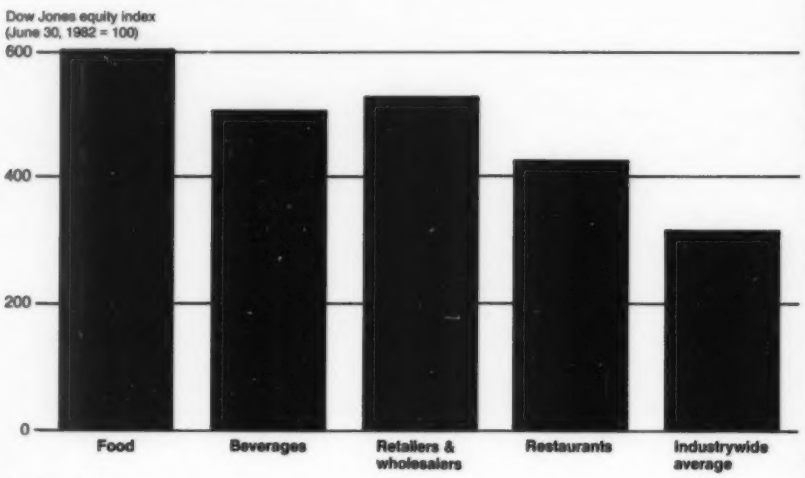
"Food safety remains a consumer concern," states Gallo, "and food marketing firms are attempting to find appropriate responses to it." The industry generally is seeking stronger Federal—rather than State—food safety regulations. Indeed, some firms are developing their own pesticide residue testing and certification programs to supplement Government approaches to the issue.

Debt Rose While Profits Fell

The food marketing system's performance can be measured by debt, profits, capital expansion, foreign trade and investment, research and development, capacity use, and owners' equity.

The debt (total liabilities) of U.S. food and tobacco processors and retailers surged from about $194 billion in the third quarter of 1988 to $263 billion in the fourth quarter of 1989. "Inflation, several successive

The Food Marketing System Performed Well for Its Owners as of November 1989



Figures subject to revision.

years of major capital expansion, and normal asset growth accounted for a small part of the total," Gallo states, "but the overwhelming share of quickly rising liabilities can be attributed to the leveraged buyouts and mergers of several firms." (A leveraged buyout is the purchase of the common stock of a company through debt financing, pledging assets of the new company as collateral.)

The equity-to-debt ratio of food processors fell from 1.13 in third-quarter 1988 to 0.77 in fourth-quarter 1989—considerably below the 1.36 ratio for all manufacturing corporations. The equity-to-debt ratio for food retailing slipped from 0.56 to 0.36 during the same period, while the ratio for all retailers was 0.69 in the fourth quarter of 1989.

Gallo explains that the after-tax profits of food retailers and processors as a portion of sales dropped precipitously from those of 1988. In the case of leveraged buyouts, proceeds that ordinarily would have been paid out to shareholders as dividends or retained were used to meet higher interest payments. Food processors' after-tax profits amounted to about 4.2 percent of sales in 1989, compared with 5.5 percent in 1988. Food retailers' profits slipped to 0.7 percent of sales in 1989, compared with 0.9 percent a year earlier.

However, Gallo points out that after-tax profits varied widely among the food processing, wholesaling, retailing, and foodservice industries, and even more so among the individual firms within each of these sectors. "Discerning an overall picture of the system's profitability is difficult because such a substantial portion of food sales is controlled by large yet diversified food marketing firms," he notes.

Capital expenditures by U.S. food processors shot up in 1989 for the second year in a row—they spent an estimated $9.4 billion on new plants and equipment, up roughly 10 percent from 1988, and started work on 390 new plant projects. The entire food marketing system may have invested $13 billion in plant and equipment expenditures.

Although information is not yet available on the food marketing system's use of capacity last year, food processing firms used 81 percent of capacity in 1988 (up from 79 percent in 1987). The number of retail grocery stores declined by about 1,000 in 1988. Roughly 1,300 new fast-food restaurants also opened in that year.

ERS estimates the food marketing system spent about $1.3 billion on research and development (R & D) in 1989, more than 60 percent of which went into processing and new products. However, Gallo notes that the food and tobacco processing industries **buy** a lot of the R & D they use—particularly in the area of technological innovation—from other sectors, such as food packaging,

computer, and machinery firms. USDA spent roughly $311 million on developing new products and processes, conducting health and nutrition research, expanding export markets, and improving market efficiency in 1988.

Increases in prices for common stock in the food marketing system surpassed those in other sectors of the economy. Although the system generally has low overall growth, the Dow Jones Equity Market Index for all companies within it increased threefold between 1982 and 1989. Food processors showed a sixfold gain, and food retailers and wholesalers averaged more than a fivefold increase. Beverages and soft drinks also outperformed the market.

The food system's price/earnings ratio—a measure of how investors value the quality of an industry's earnings—was above average in both 1988 and 1989. Part of the appreciation in the system's value reflects speculation precipitated by leveraged buyouts and mergers, many of which have proved quite profitable for investors. In addition, food processing and retailing profits have climbed rapidly in recent years (although, as noted earlier, these profits were trimmed in 1989 by higher interest payments). Finally, although food marketing is a slow-growth industry, its noncyclical nature helps to ensure stable growth in earnings and income.

"The international performance of the U.S. food marketing system is measured by its balance of trade, sales from foreign operations, and foreign investment," notes Gallo. The United States is the world's biggest importer and exporter of processed food. In 1989, the Nation's processed food trade deficit persisted for the eighth consecutive year, with about $20.1 billion in imports and $17.8 billion in exports. But the trade deficit in food and related products declined from $2.7 billion to $2.3 billion, due partly to heightened export demand.

Direct foreign investment in the U.S. food marketing system reached $24 billion in 1988, compared with $17 billion in U.S. investments in foreign food systems. Ninety percent of foreign investment in the American system came from the Netherlands, the United Kingdom, and other West European countries, while about 75 percent of U.S. investment abroad went into firms in Europe and Canada.

Foreign firms derived about $2 billion in income from their investments in the U.S. food system, while U.S. investors in food systems abroad earned more than $3 billion in 1988. Foreign firms' food marketing affiliates located in the United States recorded sales of $58 billion, while U.S. companies' affiliates overseas had sales of over $74 billion. Grain mill products and alcoholic beverages accounted for 40 percent of foreign firms' U.S. investments.

Mergers and Leveraged Buyouts Slowed

Organizational changes within the food marketing system include mergers, acquisitions, divestitures, leveraged buyouts, and fluctuations in the number of companies and establishments. Restructuring, the hallmark of the 1980's, was aided by the high-risk, high-yield ("junk") bond market, which has weakened in recent months.

Between 1982 and 1988 (the years for which ERS has complete data), the number of mergers, divestitures, and leveraged buyouts in the food marketing system totaled almost 3,400. The food processing sector alone experienced over 2,000 such transactions. Mergers in the food wholesal-

Food Marketing Sales Reached $694 Billion in 1989

Figures subject to revision.

ing sector totaled almost 400, and those in the retailing and foodservice sectors nearly 500.

A number of the mergers and leveraged buyouts announced in 1988 were completed in 1989. Kohlberg, Kravis, Roberts, and Co., bought out RJR Nabisco, Inc., for nearly $25 billion, exceeding the combined value of the five next largest mergers in the food marketing system and making it the largest in U.S. history. Phillip Morris Companies, Inc., spent almost $13 billion to acquire Kraft, Inc., and food wholesaling experienced its largest merger when Fleming Companies, Inc., purchased Malone and Hyde, Inc. In fact, the four biggest buyouts in U.S. history occurred in the food marketing system during 1988-89.

Among recorded transactions in food processing in 1988, 22 foreign buyers purchased U.S. food companies valued at $8.6 billion, and U.S. food firms bought 14 foreign companies valued at $1.6 billion.

Preliminary data for 1989 indicate that new structural transactions declined substantially from 1988, both in number and in dollar value. This decline in activity is not surprising, following as it did 1988's 573 announced or completed mergers and leveraged buyouts worth almost $61 billion, the most spectacular level in U.S. history. Forty-six of these transactions involved more than $100 million each. Of the 573 mergers and acquisitions, 351 were in the food processing sector, 76 in retailing, 75 in foodservice, and 71 in wholesaling.

The record pace of industry restructuring throughout the past decade has pared down the number of candidates available for mergers and leveraged buyouts, Gallo says. Even more important, the junk bond market weakened dramatically in the final months of 1989, limiting a major source of financing. In addition, financial institutions now seem more reluctant to fund such transactions. The Food Institute reports that the number of acquisitions fell from 652 in 1988 to 556 in 1989.

Restructuring activity in 1989 appeared to be concentrated in adjustments made by newly leveraged or merged firms. Divestiture activity (selling a business unit or subsidiary) in the food marketing system is strong, making up nearly 50 percent of all acquisitions. In the case of speculative buyouts, the firms involved sold a number of subsidiaries in the year of closing to help finance the deals. RJR Nabisco's gross proceeds from such divestitures (foreign and domestic) totaled $5.5 billion in 1989.

The merger and acquisition transactions of 1988 and 1989 greatly intensified the major firms' share of output in the food processing, wholesaling, and foodservice sectors. The market share of the top three food processing firms climbed from 9.5 percent in 1988 to 13 percent in 1989. In contrast, the share of output of the three largest food retailers has declined. □

[Based primarily on information provided by economist Anthony E. Gallo of the Commodity Economics Division, Economic Research Service.]

REPORTS IN THE NEWS

Monetary Policy And Farm Prices

Monetary policy plays a key role in determining interest rates, prices, inflation, exchange rates, and economic growth. The higher and more volatile inflation and interest rates of the past two decades, coupled with lower real growth, have spurred attention toward new instruments for formulating and implementing monetary policy.

Primary commodity prices, which are sensitive to changes in inflationary pressures, have been suggested as possible operating targets or information variables for monetary policy. Their usefulness hinges on identifying relationships between key monetary policy variables, commodity prices, and the general price level.

This report concludes that information contained in agricultural commodity prices is not likely to be useful in improving monetary policy. No close, longrun relationship exists between agricultural commodity prices and the general price level. But nonagricultural primary commodity prices were closely related to monetary aggregates and to the general price level over the long run. This result suggests a possible role for nonagricultural primary commodity prices in monetary policy.

Movements in agricultural commodity prices do not provide a clear signal about changes in the general price level, because of changes in farm policies and real market shocks. Variability in agricultural commodity prices is reduced by government intervention.

It would be possible, but difficult, to separate the "noise" associated with changes in domestic farm policy from the movement of agricultural prices.

Monetary Policy: The Potential Role for Agricultural Commodity Prices, by John Kitchen, Roger Conway, and Michael LeBlanc. Published June 1990; 24 pages; $8 ($10 to non-U.S. addresses).

Report Updates CRP Statistics

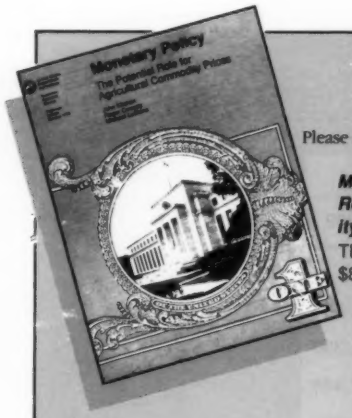
Approximately 33.9 million acres of cropland were enrolled in the Conservation Reserve Program (CRP) during signup periods 1-9. This included 5.3 million acres that were first retired from production beginning in fiscal year 1989.

Signup period 4 (February 1987) accounted for 9.5 million acres (28 percent of all acreage enrolled). The two signup periods in 1989 totaled 5.8 million acres (17 percent). The top 5 States in acres enrolled are Texas (3.9 million), North Dakota (3.1 million), Kansas (2.9 million), Montana (2.7 million), and South Dakota (2.1 million). The top 5 in rental rates per acre are Iowa $81, Hawaii $80, Illinois $75, Indiana $72, and Wisconsin $68.

This is the third in a series of reports summarizing participation in the CRP, a voluntary, long-term cropland retirement program. USDA pays CRP participants (farm owners or operators) an annual per-acre rent and half the cost of establishing a permanent land cover (usually grass or trees) in exchange for retiring highly erodible cropland for 10 years.

This report contains data—on State, regional, and national levels—covering CRP contracts for all nine signup periods. (There were three signups in 1986, two in 1987, two in 1988, two in 1989, and none in 1990.) The information in the report includes the number of contracts, acres enrolled, acres with tree plantings, average size of participating farms, size of fields enrolled, average rental payments, average erosion reductions, base acreage retired, and much additional data based on other variables.

The Conservation Reserve Program: Enrollment Statistics for Signup Periods 1-9 and Fiscal Year 1989, by C. Tim Osborn, Felix Llacuna, and Michael Linsenbigler. Published July 1990; 148 pages; $14 ($17.50 to non-U.S. addresses).



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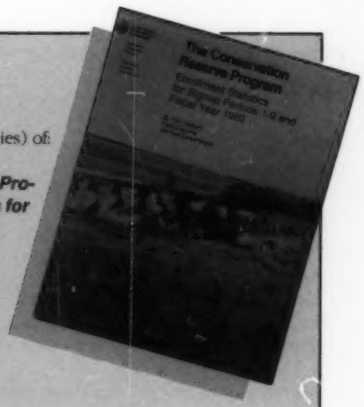

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Six States Provide Rice Production

Rice is grown on 12,000 farms in the United States and is the most expensive of the major commodities to produce on a per-acre basis. It is completely dependent on irrigation and its production is highly mechanized.

Rice is a major food for over half the world's population, but is more or less a regionally and culturally consumed food in the United States. It's mainly consumed by the Spanish, Asians, and those from the southern states. Its origin predates written history, but rice is thought to have been around for at least 3,000 years before the Christian era.

U.S. rice production is largely confined to 6 states: Arkansas, Mississippi, Louisiana, Texas, California, and Missouri. This has not always been the case since rice was first produced in the Appalachian and Southeastern states.

After the Civil War, rice production became more mechanized and less labor-intensive. The southern states of Louisiana and Texas became more competitive since they had an abundance of level, fertile, cheap land and not as many trees were grown in that region, making it cheaper to prepare large fields and less problems with birds. Expansion continued into Arkansas and eventually into California, Mississippi, and Missouri. Recently, rice production has increased in Florida. Therefore, the areas that could produce cost effectively won out with the help of mechanical engineering.

The six states that produce nearly all of the nation's rice in order of production for 1989 are Arkansas, California, Louisiana, Texas, Mississippi, and Missouri. Arkansas, which produced 63.8 million hundredweight (cwt) in 1989, accounted for 41 percent of rice production, according to economist Janet Livezey of USDA's Economic Research Service.

U.S. rice acreage and production reached new highs in 1981. That's when 3.8 million acres were planted and harvested, yields were 4,800 pounds per acre, and total production was 183 million cwt.

Since then, because of various acreage set-asides, production has leveled off, but yields have risen. "Recently there has been an easing of acreage reduction programs and producers have been able to produce more but continue to participate in the programs," says Livezey.

The Acreage Reduction Program restricted acreage to slightly less than 2.4 million in 1986 and 1987. In 1988 acreage was 2.9 million and for in 1989 about 2.7 million acres were planted to rice.

In 1895 rice yields were 1,144 pounds per acre. By 1955 yields reached 3,061 pounds. Production increases were due primarily to increases in yield per acre. In the 1970's acreage restrictions previously in effect were lifted and acreage went up, increasing by 1.5 million acres from 1970 to 1980.

In 1989 rice production was 154 million cwt, about 3 percent less than the 1988 crop. For 1990, rice production is expected to increase 2.9 percent to about 159 million cwt, according to USDA estimates.

Three types of rice are produced in the United States—long grain, medium grain, and short grain. Long grain accounted for 70.9 percent of 1989 rice production. Medium grain, which is stickier than long grain, accounted for 26.6 percent, and short grain 2.5 percent.

Long grain is grown primarily in Arkansas, Texas, and Mississippi, while California and Louisiana are the leaders in medium grain production. California is almost the lone producer of short grain, with the exception of minor production in Arkansas.

The three types of rice are not usually interchangeable, but processors can use a variety of rice grains. Long grain, the most expensive of the three varieties, is primarily used as a direct milled product with little additional processing. Short and medium grain rice are the most cost-effective for processors and are used in foods such as cereals, baby food, and snack food. Other qualities in terms of processing characteristics and chemical composition also contribute. Beer accounts for about 20 percent of rice used domestically.

For calendar year 1990, the United States contributed 20 percent of world trade. Thailand, our main competitor, contributed 35 percent and Vietnam 11 percent. The United States is known as a high quality rice producer, says Livezey. But, she continues, rice from Thailand has been improving and rice from Vietnam is at a lower quality.

—Martha R. Evans

Rice Production by State

	1987	1988	1989
		thousand cwt	
Arkansas	53,025	64,735	63,840
California	27,935	29,840	32,390
Louisiana	19,110	24,080	21,488
Texas	15,871	23,280	19,266
Mississippi	10,098	13,780	13,395
Missouri	3,564	4,182	4,108
U.S. Total	129,603	159,897	154,487

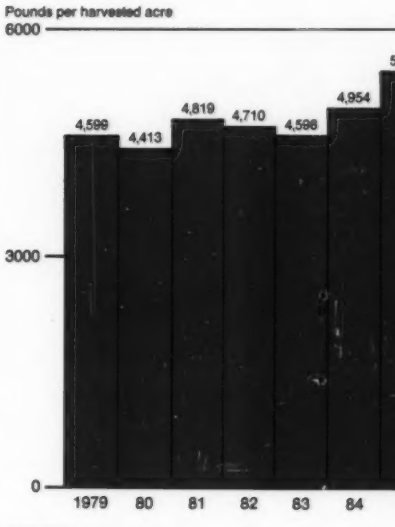
Source: National Agricultural Statistics Service, USDA.

U.S. Rice Producing Counties, 19

less than 1 million cwt

1 million cwt or more

U.S. Rice Yields, 1979-90



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Source: National Agricultural Statistics Service, USDA.

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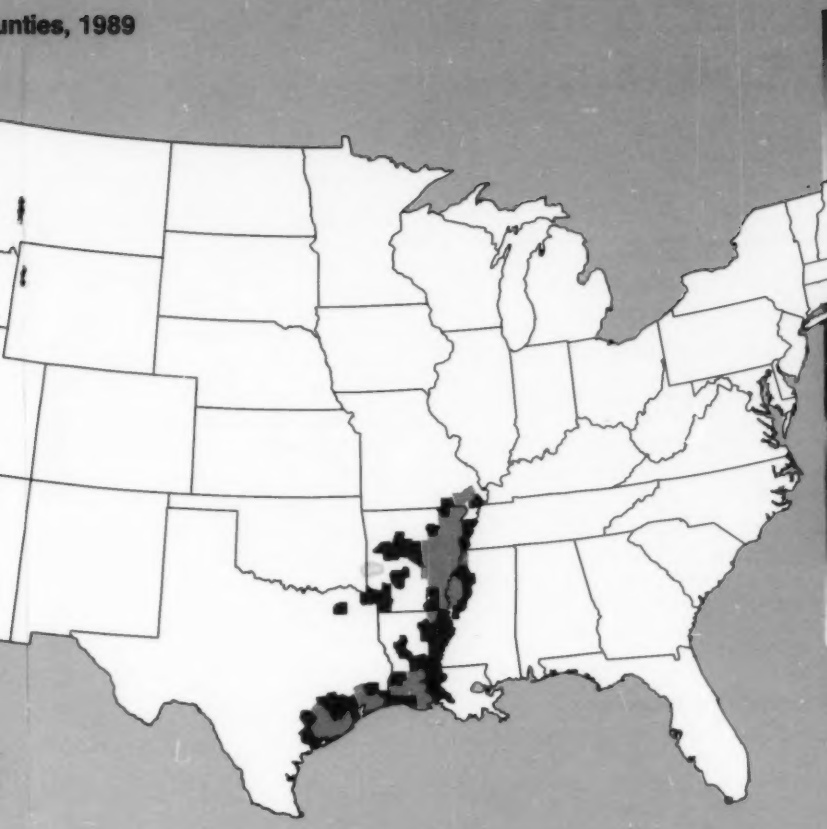
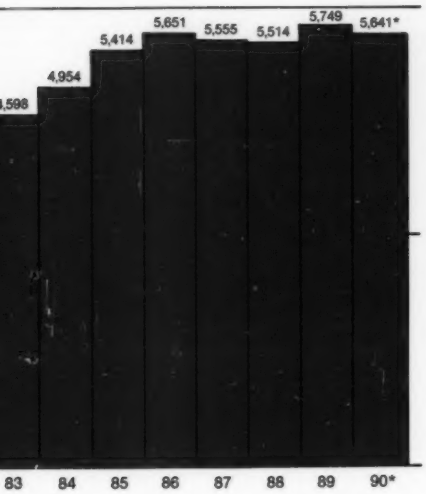
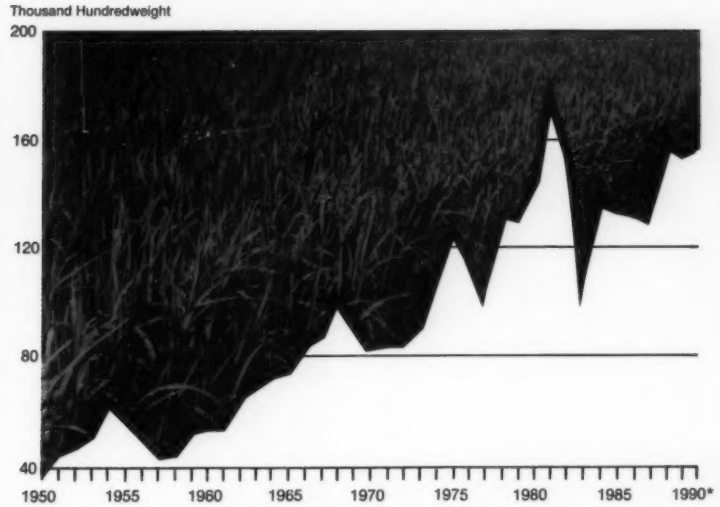




, USDA.

Rice Production, 1950-1990



*Projected.
Data provided by National Agricultural Statistics Service, USDA.

Japanese Investments in U.S. Agriculture Still Minor

"Harmony" — a basic Japanese social value

Japanese investments in U.S. agriculture and allied industries are receiving more attention in the press these days. However, while Japanese investment may be important in certain farm commodities or particular markets, Japanese holdings comprise less than 1 percent of total investment in U.S. farmland and agribusiness.

Historically, Japanese have invested only modestly in U.S. agribusiness compared with other foreign investors.

"Even so, Japanese investment in U.S. agriculture and agribusiness has grown rapidly in the last couple of years," says economist Christine Bolling of USDA's Economic Research Service. "Furthermore, the Japanese investment is concentrated in the agribusiness sector rather than in U.S. farmland."

In 1989, it is estimated, Japanese firms purchased $456 million worth of U.S. farmland, following $289 million of such purchases in 1988. Prior to these years, the highest single-year Japanese investment in U.S. farmland came in 1982, when they bought farmland valued at $22 million. Overall, nearly $1 billion worth of U.S. farmland—that USDA researchers are aware of—has been purchased with Japanese money (sometimes in joint ventures with American companies).

Japanese holdings are concentrated in the agribusiness sector.

At the same time, they've spent about $5 billion more to buy (or buy into) U.S. agribusinesses.

The Japanese investment in American agriculture and allied businesses is not the largest of any foreign country. That distinction is held by the United Kingdom. But it appears to be growing more rapidly than those of other nations.

Rising Japanese Investment

"Japanese investment has risen during the 1980's because of profitable business opportunities in the United States that became available to Japanese who had capital for foreign investment," Bolling says.

In total, the direct Japanese investment in U.S. agriculture and allied businesses is about $6 billion. But joint ventures with partial Japanese ownership mask the extent of the overall presence.

Bolling is not suggesting that the surge of Japanese investment will inundate American agribusiness.

"The U.S. agribusiness complex is so huge that foreign properties are a small part of the whole complex," she says.

Of the farm enterprises owned by foreigners, only about 3 percent are Japanese-held.

Among the largest Japanese holdings are a 77,000-acre cattle ranch in Montana, a 25,000-acre citrus grove in Florida, and a 1,000-acre prune orchard in northern California. Japanese investors also have many smaller parcels of agricultural land.

In the area of food processing, Japanese investors own the second largest vinegar company in the United States, several multimillion-dollar food processing plants, and a company controlling 60 percent of the Hawaiian bread baking industry. Japanese are also involved in the California wine industry, the bottled water and soft drink industries, the Alaskan fish processing industry, textile mills, and the feed additive and grain storage business, and they hold a majority interest in a large U.S. convenience store chain (7-Eleven).

Sprinklers irrigate a field on Montana's Selkirk Ranch, owned by the Zenchiku Land and Livestock Co. of Japan.

Foreign-Owned Food Firms Have Prominent U.S. Presence

Japan's relatively recent entry into American agribusiness underscores the strong and continuing role of foreign firms in the U.S. food production and marketing system, says ERS economist Charles Handy.

While McDonald's pushes into new markets abroad (opening a widely publicized restaurant in Moscow, for instance), other familiar fast-food outlets are themselves symbols of foreign nations' presence in the American market. Burger King, the second largest fast-food chain, is owned by Grand Metropolitan, PLC, of the United Kingdom. Grand Metropolitan acquired Burger King when it bought Pillsbury (the parent corporation) in 1988. (Burger King had $5.8 billion in sales from about 6,000 outlets in 1989.) And late in 1989, the Marriott Corporation sold most of its Roy Rogers restaurants to Imasco, a Canadian firm, for $365 million. Imasco also owns the Hardee's chain of fast-food restaurants, which had sales of $3.3 billion in nearly 3,200 outlets in 1989.

Other well-known names are also now subsidiaries of foreign companies. The Dunkin' Donuts and Mr. Donut chains were recently acquired by Allied Lyons PLC of the United Kingdom. In 1989, Dunkin' Donuts had about 1,900 units with combined sales of over $800 million. Mr. Donut operated about 800 units with sales of nearly $250 million in 1989. In addition, Baskin-Robbins ice cream stores—with estimated sales of $693 million in 1989—are also owned by Allied Lyons.

"On the supermarket shelf—and among supermarkets themselves—foreign companies now have a significant presence," says Handy.

When Americans buy Pillsbury or Green Giant products, or Alpo pet foods, for instance, they're buying from the same British firm—Grand Metropolitan, PLC—that owns Burger King.

What all this suggests—that foreign companies have extensive food processing operations in the United States—is exactly the case.

Nestle', based in Switzerland, operates 421 plants in 60 countries, 67 of them in the United States.

Nestle', in fact, had 1989 sales of more than $1 billion from its U.S. food processing subsidiaries. Only Grand Metropolitan (United Kingdom) among foreign companies also had sales in excess of $1 billion from its U.S. processors.

Twenty-two other foreign companies had sales of $100 million or more from their U.S.-based food processing subsidiaries in 1989.

But this is a two-way street. U.S. food processors had sales totaling about $60 billion in 1988 from their operations in foreign countries. In contrast, foreign firms had sales of about $30 billion from their food processing operations in the United States.

Foreign firms are also investing in food retailing operations in the United States. "In so doing, they are entering the food retailing business at a much more rapid rate than their U.S. counterparts are going into foreign countries," says Handy.

In 1988, the sales by foreign-owned U.S. food stores topped $22 billion. Of that amount, the five largest foreign owners made up $18.9 billion, or 86 percent of the total. Tengelmann A.G. (West Germany) which owns A&P, had the largest U.S. food store holdings in 1988. A&P's sales totaled $8.2 billion in 1988. Delhaize, Le Lion (Belgium), owner of Food Lion, ranked second with U.S. sales of $3.8 billion.

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Food for Japan

"In some cases, Japanese investments in U.S. agribusiness are part of a vertically integrated industry, where the products are shipped to Japan," says Bolling. "Such situations have developed in the citrus, prune, and beef industries."

For example, Japanese investors have not only purchased a large cattle ranch in Montana. They've also bought feedlots and beef processing plants in Washington State and California. And they have joint-venture feedlot operations with U.S. cattle enterprises in nine States. These ranches and feedlots are aiming for a specialized part of

日本

"THE SOURCE OF THE SUN"

The Japanese derive the name of their country from a Chinese phrase meaning "the source of the sun," the characters for which are at left. The phrase describes the country's geographical position east of China. The word "Japan" came from Marco Polo's attempt to render the Chinese pronunciation of the phrase in Italian after his return from China in the 13th Century. The Japanese themselves, however, usually give the characters a sound that is rendered in English as "Nihon." The top character means "sun," the bottom one "source." Originally the Japanese built up a written language by taking Chinese characters and adapting them to their own radically different spoken language. To these characters — like the two shown here — they later added a kind of alphabet of their own, making the two written languages also different.

Cattle graze on the Japanese-owned Selkirk Ranch in Montana.

the Japanese market called "carcass fresh chilled extra long fed beef" that is sold at a premium price in the Japanese market. Altogether, the beef shipments originating from these Japanese (and Japanese-U.S. joint venture) companies represent about 15-20 percent of the U.S. beef exports to Japan.

"Japanese investment in U.S. agribusiness is part of a global phenomenon of market integration," says Bolling. "It also fits in with Japan's situation in that it is an affluent but food-deficit country that sets high standards for the food it imports and consumes."

The United States has sought increased export earnings from agriculture to defray the current trade deficit, she says. "We are courting Japan as a market for our agricultural products, and are pleased that Japan has been our largest agricultural market for many years."

From the U.S. standpoint, there are also benefits associated with foreign investment in the U.S. food industry.

Foreign investment has been sought in some regions of the United States to encourage economic development and provide employment opportunities. And the downturn in U.S. agriculture in the early 1980's caused many farmers to sell their farms. The presence of Japanese buyers provided a source of demand and probably moderated the decline in land prices.

"While some are concerned about increasing Japanese investment in U.S. agribusiness, there should be no more concern than that over British, Canadian, or other foreign investment in the agribusiness sector," says Bolling.

The Japanese share of total foreign investment in U.S. agribusiness is still smaller than that of other nations.

"According to U.S. Department of Commerce statistics, total foreign investment in the U.S. agribusiness sector is $30 billion (up from $19 billion in 1985) plus another $10 billion invested in U.S. agricultural land," says Bolling. "Only a modest part is investment by Japanese."

Beef Sector Is One Area the Japanese Are Involved In

The so-called globalization of food marketing is obviously at work when a Japanese company builds a plant in Pennsylvania to make Mexican food for American consumers.

That's what's happening these days in Lancaster, Pennsylvania, where Camino Real Foods, Inc. (acquired by Nissin Food Products Co., of Japan in 1988), has constructed facilities to make frozen Mexican-style foods for marketing on the east coast.

The Nissin move also represents the growing reach of Japanese investors into varied sectors of U.S. agriculture and related industries.

The extent of this reach may best be realized, symbolically speaking, by the fact that Japanese firms are now selling Coca-Cola to Americans in the United States, or at least the U.S. area served by New England Bottling (5 Coca-Cola plants). Kirin Brewery Co., Ltd., of Japan owns the bottler, which has annual U.S. sales of $300 million.

"Nissin and Kirin are not exactly U.S. household names, but they are well-established Japanese companies that have large subsidiaries in the United States to do business in the United States," says ERS economist Christine Bolling.

But there are some cases where the subsidiaries of Japanese companies provide high-quality foodstuffs to their food-deficit nation. That effort has become easier with bilateral agreements like the U.S.-Japan Beef and Citrus Agreement, which allows for increased Japanese imports of beef and citrus products.

"This accord has presented Japanese investors, as well as American beef and citrus producers, with a chance to get in on a potentially profitable business venture," says Bolling.

In fact, Japanese businesses have already become involved in such ventures.

Zenchiku, Ltd., Japan's largest beef marketer, owns a 77,000-acre cattle ranch in western Montana, where cattle are fed special diets to make the beef more palatable to the Japanese consumer.

That's just one of several enterprises, though, that show the Japanese involvement in every step of the process—from cattle-raising to cattle-finishing in feedlots and end-processing in slaughterhouses and packing plants, where at least a portion of the beef is shipped to Japan.

In 1988, for example, Japan's Farmland Trade Company bought three beef packing plants in Washington State.

In California, Japanese-backed Mercury Overseas Trading Company takes its range cattle from northern California to a feedlot in Monterey County, and then to a reopened beef slaughter and packing plant in Paso Robles, California, for shipment to Japan.

Also in California, Nichirei Corporation paid $16 million to acquire Tengu Co., a Los Angeles beef processor that exports 30 percent of its products to Japan.

Overall, Japanese investors have spent nearly $100 million on beef processing facilities in the United States. And more companies will soon be coming.

"Prima Meat Packers, Ltd., is planning to expand overseas operations to meet Japan's decontrol of beef imports," says Bolling. "This major Japanese beef processor will run cattle ranches in the United States and Australia, and increase imports of processed meat products from its American business partner."

Japan's entry into enterprises involving citrus is also impressive, although not as extensive as its beef-related businesses.

"Sumitomo Corporation, in cooperation with Prudential Insurance Company, is managing Florida's largest citrus orchard, 25,000 acres of oranges and grapefruits in the Indian River area," says Bolling. "Sumitomo is Japan's largest grapefruit importer."

Citrus orchards in California's Coachella Valley have also been purchased by a Japanese firm. Pokka Corporation has bought groves of oranges, lemons, and grapefruit.

Farmland ownership by Japanese investors and Japanese-U.S. joint ventures is concentrated in the Western States. The United Kingdom has the largest overall investment in the United States and some other West European companies have been U.S. food industry giants for a long time.

"The presence of other foreign investors is not new," notes Bolling, "but it too has been rising rapidly in the last 5 years." □

[Based primarily on information provided by economist Christine Bolling of the Agriculture and Trade Analysis Division, Economic Research Service.]

Dialing Up Economic Information

Economic Research Service telephone numbers have changed as of the beginning of this month (November 1990). The new numbers are listed in this revised telephone guide. You can keep the guide in your files and refer to it whenever you need economic information pertaining to agriculture. Listed are economists, statisticians, and other specialists of ERS and the National Agricultural Statistics Service. Generally, those listed with an "S" for "Statistics" can give you data on acreage, yield, production, livestock numbers, and stocks. Those identified with an "E" for "Economics" can help with supply-demand-price questions and other economic issues. The area code for all the numbers is 202.

CROP AND LIVESTOCK SPECIALISTS

Aquaculture		
Ron Sitzman	S	447-3244
Robin Roark	S	447-6147
Dave Harvey	E	219-0888
Coffee & Tea		
Fred Gray	E	219-0888
Cold Storage		
John Lange	S	382-9185
Cotton		
Roger Latham	S	447-5944
Robert Skinner	E	219-0841
Scott Sanford	E	219-0841
Carolyn Whitton (World)	E	219-0824
Dairy Products		
Dan Buckner	S	447-4448
Jim Miller	E	219-0770
Sara Short	E	219-0769
Feed Grains		
Charles Van Lahr	S	447-7369
Larry Van Meir	E	219-0840
Peter Riley (World)	E	219-0824
James Cole	E	219-0840
Floriculture		
Jim Brewster	S	447-7688
Doyle Johnson	E	219-0884
Food Grains		
Vaughn Siegenthaler —Wheat	S	447-8068
Ed Allen—Wheat	E	219-0841
Dave Abbe—Rice	S	447-2157
Edwin Young—Rice	E	219-0840
Janet Livezey—Rice	E	219-0840
Sara Schwartz (World Rice & Wheat)	E	219-0824
Fruits & Nuts		
Jim Brewster	S	447-7688
Jim Smith	S	447-5412
Kate Buckley—Fruit	E	219-0885
Boyd Buxton	E	219-0885
Doyle Johnson—Nuts	E	219-0884
Hay		
Darwin Ransom	S	447-7621
Larry Van Meir	E	219-0840
Honey		
Tom Kruchten —Production	S	475-4870
R. Schuchardt—Prices	S	475-3236
Fred Hoff	E	219-0883
Livestock		
Steve Noyes—Cattle	S	447-3040
Ron Gustafson—Cattle	E	219-0285
Doyle Fuchs—Hogs	S	447-3106
Warren Jessee—Hogs	E	219-0767
Linda Simpson—Sheep	S	447-3578
Richard Stillman—Sheep	E	219-0714
Shayle Shagam (World)	E	219-0767
Mink		
Tom Kruchten	S	475-4870
Peanuts		
Roger Latham	S	447-5944
Jim Schaub	E	219-0841
Kathy McKinnell (World)	E	219-0824
Potatoes		
Arvin Budge	S	447-4285
Glenn Zepp	E	219-0883
Catherine Greene	E	219-0886
Poultry—Broilers, Turkeys, Eggs		
Ron Sitzman	S	447-3244
Robin Roark	S	447-6147
Tom Kruchten	S	475-4870
Lee Christensen	E	219-0714
Larry Witucki (World)	E	219-0766
Oilseeds—Soybeans, Sunflowers		
Herb Vanderberry	S	447-9526
Roger Hoskin	E	219-0841
Jim Schaub	E	219-0841
Bruce Wendland	E	219-0841
Kathy McKinnell (World)	E	219-0825
Sugar & Sweeteners		
Darwin Ransom	S	447-7621
Robert Barry	E	219-0888
Peter Buzzanell	E	219-0888
Tobacco		
Darwin Ransom	S	447-7621
Verner Grise	E	219-0890
Tom Capehart	E	219-0890
Vegetables		
Jim Brewster—Fresh	S	447-7688
Arvin Budge—Processed	S	447-4285
Jim Smith	S	447-5412
Shannon Hamm	E	219-0886
Gary Lucier	E	219-0894
Catherine Greene	E	218-0886
Wool & Mohair		
Bernard McCullough	S	447-3578
John Lawler	E	219-0840

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South Asia		
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East Asia		
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Canada		
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China		
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Kathryn Zeimetz	E	219-0624
Exports & Imports		
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Steve Milmoe—Exports	E	219-0821
Steve MacDonald —Statistics	E	219-0822
Karen Ackerman —Programs	E	219-0820
Food Aid		
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Latin America		
John Link	E	219-0660
Pacific Rim		
Carol Goodloe	E	219-0610
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Tim Baxter	E	219-0705
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Jim Ryan	E	219-0798
Pat Sullivan	E	219-0719

Financial Markets

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Futures Markets

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Ken Nelson—Livestock	E	219-0712
Joe Glauber—Crops	E	219-0841

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Diane Bertelsen—Farm	E	219-0808
Roger Strickland—Farm	E	219-0804
Mary Ahearn—Farm Household	E	219-0807

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Doug Kleweno—Paid	S	447-4214
Robert Milton	S	447-3570

Production Costs

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Robert Dismukes—Crops	E	219-0801
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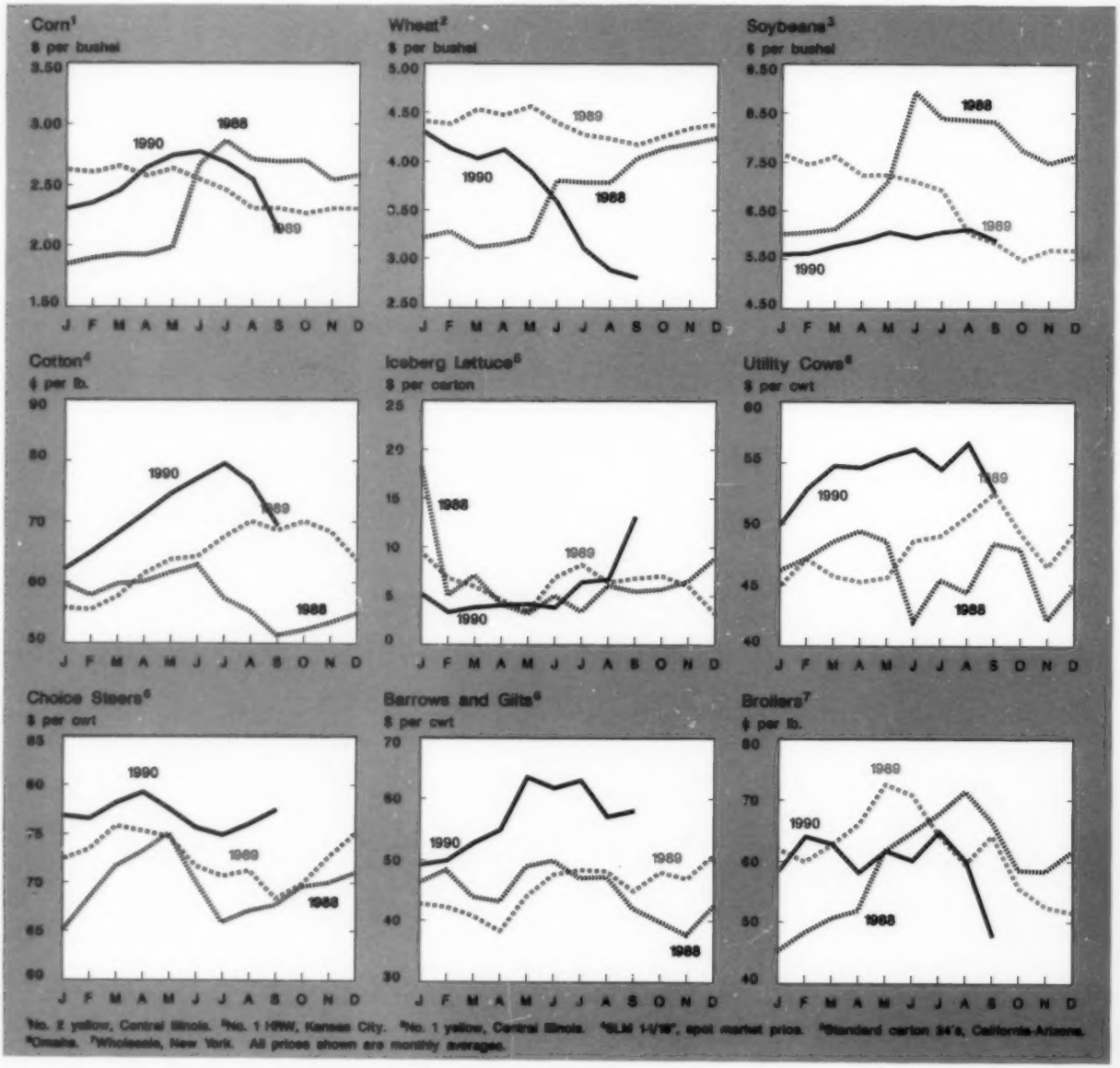
Ken Baum	E	219-0433

FARMLINE TRENDS

Monthly Price Monitor

USDA's September 1990 inflation-adjusted index of farm prices decreased 2% from August but was 3.5% above its year-earlier level. The major feed grains declined in September. Corn slumped to $2.11 a bushel, the lowest since May 1988, while wheat slid to $2.79 per bushel, the lowest since September 1987. Soybeans were down to $5.85 per bushel. Cotton slid to 69.3¢ per pound. Meanwhile, lettuce jumped to $13.00 per carton, the highest since January 1988. Among meat animals, utility cows plunged to $52.50, a drop of $4, while Choice steers increased to $77.50. Barrows and gilts were up to $58.00, while broilers were at their lowest since January 1988 at 47.5¢ per pound.



[1]No. 2 yellow, Central Illinois. [2]No. 1 HRW, Kansas City. [3]No. 1 yellow, Central Illinois. [4]SLM 1-1/16", spot market price. [5]Standard carton 24's, California-Arizona. [6]Omaha. [7]Wholesale, New York. All prices shown are monthly averages.

AGRICULTURAL ROUNDUP

Annual Outlook Conference To Look at 'World of Change'

Planning for next year might turn out to be one of the tougher chores farmers face this winter. New domestic policies for farming and dramatic changes abroad are multiplying the uncertainties that normally attend farmers' planting and business decisions.

From the historic crumbling of the Berlin Wall—a symbol of Eastern Europe's opening to the West—to the situation in the Middle East, the past year has produced a series of shockwaves bound to be felt for some time to come.

Such key economic factors as the state of the economy, fuel prices, and U.S. export prospects could all be affected by the outcome of events abroad. And farmers must pencil in assumptions about these economic elements as they consider what to do next spring.

Adding to the planning challenge, many of the policies farmers count on, from the Farm Bill to international trading rules, are being overhauled this year by the U.S. Congress and by GATT negotiators. In other words, farmers will be playing by new rules that are still being fine-tuned and have yet to be tried in practice.

In this climate of question marks, USDA is making an extra effort to help farmers and agribusiness interpret what today's events might mean for next year's outlook. As it has for more than 60 years, USDA will hold its annual outlook conference at its Washington, D.C., headquarters to discuss farm prospects. But this year's conference will take on added importance.

Using a theme of "Agriculture in a World of Change," USDA plans to devote the first day of the conference, Tuesday, November 27, to high-level briefings on key events likely to affect U.S. agriculture.

To make these briefings widely available, they will be telecast nationwide on C-band satellite. Anyone in the continental United States with C-band satellite reception will be able to tune in.

The telecast will be on the Westar V satellite, transponder 11X, Channel 22. The downlink frequency is 4140 MHz and the audio frequency is 6.2/6.8 MHz. Test and tone will start at 10 a.m. EST. For technical questions before the conference, call (202) 447-5368. For technical assistance during the broadcast, call (202) 447-8559.

Secretary of Agriculture Clayton Yeutter is scheduled to open the high-level briefing with a keynote address at 10:30 a.m. Deputy Secretary of State Lawrence S. Eagleberger and other top U.S. officials will follow, explaining how current world events and U.S. foreign policy are affecting prospects for the U.S. economy, farmers and consumers, and agricultural exports.

A final panel of experts is slated to discuss the ramifications of the unification of Western Europe ("Europe '92"), the advent of democracy in Eastern Europe, and the evolving situation in the Soviet Union. Several ambassadors are being invited to participate. The broadcast will end at 5 p.m. EST.

On Wednesday, the conference turns to the current state and 1991 prospects for grains, oilseeds, livestock,

sweeteners, and other commodities—from forest products to aquaculture and, for the first time, greenhouse and nursery products. A key aspect of these sessions will be how the new Farm Bill will affect the outlook during its first year of operation.

Other topical—and pressing—issues will be examined, ranging from food prices, labeling, and dietary trends, to farm credit and changing regulation of farm chemicals. The conference winds up Thursday with two issues of both immediate and long-term significance: the search for solutions to food safety and environmental problems and energy issues for agriculture.

The conference is free, but preregistration is advised. For details, call (202) 447-3050 or write Outlook Conference, 5143 South Building, USDA, Washington, DC 20250-3900. News media representatives are welcome and preregistration for them is also advised. Press arrangements may be made by contacting Diane Decker at (202) 219-0494.

Audio tapes and proceedings of conference sessions will be available. To place preconference orders for audio cassette tapes, call 1-800-423-2050 (in California call 805-295-0504). To order conference publications, call 1-800-999-6779.

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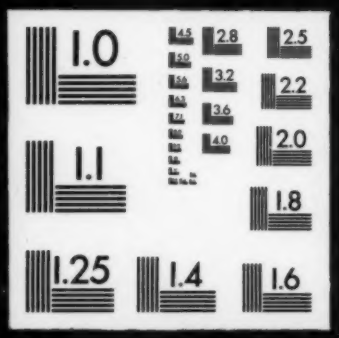
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